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SUBJECT: ARMENIA MCA BI-WEEKLY REPORT -- JULY 2, 2004

REF: YEREVAN 1343

1. (U) Sensitive But Unclassified. Please treat accordingly.

GOAM MCA BOARD MEETINGS CONTINUE

2. (SBU) GOAM sources tell us that the GOAM MCA Board has met a total of seven times to date. This number, however, includes five consultative sessions in which GOAM MCA Board members participated as well as internal meetings of the Board. According to the Prime Minister's Office, the Board will meet at least once per month and will likely convene more often in the weeks preceding submission of Armenia's MCA compact proposal. MCA Board meetings have not been open to the press but have included press availability immediately following the session. In contrast, consultative sessions have been open to the press and public. The Prime Minister's office invited an Embassy representative to attend the next MCA Board meeting.

CONSULTATIVE PROCESS WILL MOVE TO REGIONS

3. (SBU) The Prime Minister and GOAM MCA Board instructed the governors of Armenia's eleven provinces, who attended the most recent GOAM MCA Board meeting in mid-June, to sponsor a series of consultative sessions within their respective regions within the next month. GOAM sources told us that the instructions included a charge to hold meetings in their regions' poorest, largest and most remote cities and towns. Villages and towns in border areas will receive special consideration as venues for these meetings. The Prime Minister reportedly told governors that, in order to qualify as bona fide sessions, these meetings must include the press, be open to the public, and be properly announced in the local media. The first of these meetings will be held during the first two weeks of July. We plan to attend some of these meetings as observers.

GOAM MCA STRUCTURES TAKE SHAPE

4. (SBU) GOAM officials in the office of the Prime Minister reported that the GOAM's MCA Board, Secretariat and related structures have taken shape during the past two weeks (reftel). Sergey Balassanyan, Chair of the Ministry of Finance and Economy's Poverty Reduction Strategy Paper (PRSP) Coordination Division, will head the Secretariat. Balassanyan will continue to answer to Deputy Minister of Finance and Economy Tigran Khachatryan, who appears to be doing the majority of the legwork on MCA issues for the MFE. Reportedly in an effort "to create internal checks and balances and distribute everyday responsibilities," the Economic Affairs Division within the Office of the Prime Minister will serve as MCA Board Recorder. Division Chief Simon Ghonaghchyan was eager to show us volumes of notes of GOAM MCA Board meetings, consultative sessions and by-laws that have been produced to date. While still available neither to the public nor in languages other than Armenian, the Prime Minister's Office assured us that these materials would shortly be available for public use and distributed among the international community. The Embassy has requested advance copies of these materials (in particular GOAM MCA Board by-laws) and will forward them to MCC Washington when available.

PRESIDENT'S CHIEF ADVISOR ON WASHINGTON MEETINGS

5. (SBU) Following recent meetings in Washington, President Kocharian's Chief Economic Advisor and GOAM MCA Board Deputy Chairman Vahram Nercissiantz reported to GOAM colleagues that the sessions were productive and that he came away from meetings with the MCC Board and State Department with new ideas regarding the consultative process. He told

USAID/Armenia Mission Director (also in Washington) that the GOAM might push back its MCA compact proposal submission to August. Nercissiantz has tentative plans to visit Washington in late July or early August.

MORE PREDICTIONS: RURAL WATER AND ROADS

16. (SBU) In private and public statements, high-ranking GOAM officials told us that they predict that the GOAM's MCA compact proposal will involve improvement for rural water access and road rehabilitation. While mindful that the consultative process is far from over, they point to studies (including the PRSP and feasibility studies by international donor organizations) as strong indicators that these sectors will offer the best use for MCA funding. GOAM officials representing the urban areas in and around Yerevan have reportedly "given up hope" that the GOAM's compact proposal will include projects in the capital. We continue to hear rumors that municipal leaders in Yerevan are disgruntled by what they perceive as an "unfair concentration on rural improvement."

PRESS REPORTS ON REGIONAL CONSULTS, OSKANIAN MEETINGS

17. (U) Recent press reports regarding MCA concentrated on Foreign Minister Vartan Oskanian's June meetings in Washington and reported that USG officials congratulated Oskanian regarding Armenia's MCA eligibility. The media also included wide coverage of the GOAM's plans to take the MCA consultative process to the country's regions. A June 17 RFE/RL report carried by Azbarez on-line (an English-language newspaper related to Armenian Revolutionary Federation media outlets in Armenia with considerable distribution among Diasporan communities and expatriates in Yerevan) included statements by Minister of Finance and Economy Vartan Khachatryan that only two formal proposals by Armenia-based NGOs had been received by the GOAM MCA Board. (Note: GOAM sources later contradicted this report but the MFE has not yet released clarification of the statement nor an update. End Note.)

COMMENT: GOAM INTEREST IN BEST PRACTICES

18. (SBU) Judging from conversations with GOAM representatives at all levels, there is a sense among some bureaucrats that the clock is ticking and that the success of Armenia's compact proposal could depend as much on timing as it does on quality. Post continues to echo the message of MCC CEO Applegarth that proposal substance, including the consultative process, is key. As with other foreign policy considerations, Armenians are extremely sensitive to where they stand in relation to other countries in the MCA process. During discussions about what would constitute a successful compact proposal, GOAM contacts within the MFE, MFA and Prime Minister's Office have expressed interest in what, if any, successful practices Washington can share with Armenia from other MCA eligible countries.

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